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DESCRIPTION OF THE ADMINISTRATION'S FISCAL YEAR 1985 BUDGET RECOMMENDATIONS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

MARCH 6, 1984

Prepared for the use of the Committee on Ways and Means by its staff

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PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the March 15 report to the Budget Committee. This document describes the Reagan administration fiscal year 1985 budget recommendations requiring legislative action. All estimates were provided by either the administration or the Congressional Budget Office (CBO), and the source for each estimate is noted.

The document is divided into three parts:

Part I.—A comparative summary indicating the budget effect of the Reagan administration recommendations. This part also contains tables describing the entire budget outlook under the administration's proposal and under current law as estimated by the administration and CBO.

Part II.—A detailed description of each outlay reduction, a comparison with present law, and an explanation of how the recommendation is phased in. A short statement on whom the proposal affects is also provided.

Part III.—A summary description of the revenue proposals.

The document concludes with two appendixes:

Appendix A.—A short description of the Budget and Impoundment Control Act along with several excerpts from the act.

Appendix B.—The Committee on Ways and Means' March 15, 1982, and March 15, 1983, reports to the Budget Committee.

The committee wishes to acknowledge the assistance of the Congressional Research Service and the Congressional Budget Office in preparing this document.

This material has been assembled in a limited amount of time in order that members may have all information currently available about the recommendations as soon as possible. As more information becomes available, the data in this document may necessarily have to be revised.

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PART I

Summary Tables Describing the Legislative Changes Recommended by the President for Programs Under the Jurisdiction of the Committee on Ways and Means and the Entire Budget Outlook Under Current Law and the Administration's Budget

TABLE 1.—CONGRESSIONAL BUDGET OFFICE ESTIMATES OF LEGISLATIVE CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions of dollars]

Program	1985	1986	1987	1988	1989
Social security (OASDI)	0	0	0	0	0
Medicare:					
Hospital insurance (HI)	−188	−182	−205	−232	−259
Supplementary medical insurance (SMI)	−1,121	−2,163	−3,496	−5,144	−7,104
Unemployment compensation [1]	NA	NA	NA	NA	NA
Trade adjustment assistance [2]	NA	NA	NA	NA	NA
AFDC and child support	−261	−361	−366	−391	−411
SSI	−16	−16	−15	−14	−15
Title XX [3]	NA	NA	NA	NA	NA
Foster care [4]	NA	NA	NA	NA	NA
Pension Benefit Guaranty Corporation	−154	−168	−199	−233	−265
Total	−1,740	−2,890	−4,281	−6,014	−8,094
Medicaid impact of medicare proposals	16	78	163	264	390
Medicaid impact of AFDC proposals	−10	−65	−90	−100	−110
Food stamp impact of AFDC proposal	95	120	120	110	115
Total	−1,639	−2,757	−4,088	−5,740	−7,699

[1] Administration has proposed changes affecting the railroad compensation program.

[2] Administration has proposed zero funding for the firm program.

[3] Administration has proposed no changes in title XX funding except that it is to be combined with the WIN and Community Services block grant programs and the administration proposes zero funding for those two programs.

[4] Legislative proposal is still undefined and therefore impact cannot be measured.

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TABLE 2.—ADMINISTRATION ESTIMATES OF LEGISLATIVE CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions of dollars]

Program	1985	1986	1987	1988	1989
Social security (OASDI)	0	0	0	0	0
Medicare:					
Hospital insurance (HI)	−225	−220	−244	−270	−303
Supplementary medical insurance (SMI)	−1,011	−2,054	−3,468	−5,172	−7,053
Unemployment compensation [1]	NA	NA	NA	NA	NA
Trade adjustment assistance [2]	NA	NA	NA	NA	NA
AFDC and child support	−684	−897	−878	−857	−878
SSI	−16	−16	−14	−14	−15
Title XX [3]	NA	NA	NA	NA	NA
Foster care [4]	NA	NA	NA	NA	NA
Pension Benefit Guaranty Corporation	−154	−168	−199	−233	−265
Total	−2,090	−3,355	−4,804	−6,546	−8,514
Medicaid impact of medicare proposals	7	56	127	209	305
Medicaid impact of AFDC proposals	−230	−395	−443	−497	−558
Food Stamp impact of AFDC proposal	204	208	211	213	219
Total	−2,109	−3,486	−4,909	−6,621	−8,548

[1] Administration has proposed changes affecting the railroad compensation program.

[2] Administration has proposed zero funding for the firm program.

[3] Administration has proposed no changes in title XX funding except that it is to be combined with the WIN and Community Services block grant programs and the administration proposes zero funding for those two programs.

[4] Legislative proposal is still undefined and therefore impact can not be measured.

TABLE 3.—CBO ESTIMATES OF AFDC, CSE, SSI AND MEDICARE BUDGET IMPACTS BY PROVISION

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
AFDC					
Remove parent from AFDC assistance unit when youngest child reaches age 16:					
AFDC	−20	−20	−20	−20	−20
Medicaid	−40	−45	−50	−55	−55
Food stamps	10	10	10	10	10
Net budget impact	−50	−55	−60	−65	−65
Include parents and minor siblings—assistance unit:					
AFDC	−120	−130	−130	−135	−135
Medicaid	80	100	105	120	125
Food stamps	35	40	40	40	40
Net budget impact	−5	10	10	25	30
Mandate proration of shelter and utility costs:					
AFDC	−115	−185	−195	−205	−215
Medicaid	−5	−5	−5	−5	−5
Food stamps	55	85	90	95	100
Net budget impact	−65	−105	−110	−115	−120
Mandate job search and community work experience programs (CWEP):					
AFDC	15	35	30	10	0
Medicaid	−35	−100	−120	−135	−145
Food stamps	−10	−15	−15	−20	−20
Net budget impact	−30	−80	−105	−145	−165
Allow States to require parents to register for work and CWEP when youngest child attains age 3.[1]					
Sanction voluntary quit:					
AFDC	−1	−1	−1	−1	−1
Medicaid	0	0	0	0	0
Food stamps	0	0	0	0	0
Net budget impact	−1	−1	−1	−1	−1
Require single minor mothers to live with parents:					
AFDC	−20	−20	−20	−20	−20
Medicaid	−10	−10	−10	−10	−10
Food stamps	10	10	10	10	10
Net budget impact	−20	−20	−20	−20	−20
Eliminate benefits if parent leaves home to look for employment:					
AFDC	−5	−5	−5	−5	−5
Medicaid	0	0	0	0	0

TABLE 3.—CBO ESTIMATES OF AFDC, CSE, SSI AND MEDICARE BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
Food stamps	0	0	0	0	0
Net budget impact	−5	−5	−5	−5	−5
CHILD SUPPORT ENFORCEMENT					
Modify financial incentive payments structure:					
CSE—Reduce administration match	0	−45	−50	−55	−60
Require enforcement techniques	0	−10	−10	−10	−10
Application and collection fees	−10	−15	−25	−30	−30
Interstate special project fund	15	15	15	15	15
ADP costs	5	10	10	5	0
Case level effect	10	30	55	90	100
Subtotal	(20)	(−15)	(−5)	(15)	(15)
AFDC—Cost avoidance	−15	−20	−20	−30	−30
Food stamp avoidance	−5	−10	−15	−25	−25
Medicaid avoidance	0	−5	−10	−15	−20
Subtotal—cost avoidance	(−20)	(−35)	(−45)	(−70)	(−75)
Net budget impact	−35	−55	−65	−100	−105
SUPPLEMENTAL SECURITY INCOME					
OASDI and SSI cross program recovery	−16	−16	−15	−14	−15
MEDICARE					
1 month eligibility delay:					
Medicare part A	−155	−175	−195	−215	−240
Medicare part B	−75	−90	−100	−115	−130
Medicaid	16	19	24	28	32
Net budget impact	−214	−246	−271	−302	−338
Index part B deductible:					
Medicare part B	−35	−90	−160	−255	−350
Medicaid	0	0	1	1	1
Net budget impact	−35	−90	−159	−254	−349
Freeze physician reimbursement: [2]					
Medicare part B	−715	−815	−920	−1,040	−1,180
Medicaid	−14	−15	−17	−20	−22
Net budget impact	−729	−830	−937	−1,060	−1,202
Lower reimbursement for durable medical equipment:					
Medicare part A	−20	−25	−25	−30	−30
Medicaid	2	2	2	2	2
Net budget impact	−18	−23	−23	−28	−28
Voluntary voucher:					
Medicare part A	0	33	33	33	33
Medicare part B [2]	NA	NA	NA	NA	NA

TABLE 3.—CBO ESTIMATES OF AFDC, CSE, SSI AND MEDICARE BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
Net budget impact	0	33	33	33	33
Increase the part B premium:					
Medicare part B	−296	−1,168	−2,316	−3,734	−5,444
Medicaid	22	88	175	282	412
Net budget impact	−274	−1,080	−2,141	−3,452	−5,032
Competitive bidding [3]	−4	−5	−8	−9	−10
Simplify processing of part A bills [3]	−3	−4	−4	−4	−5
End stage renal disease networks [3]	−4	−4	−4	−5	−5
Railroad Retirement Board contractor [3]	−2	−2	−2	−2	−2
Volume purchasing, medicare part B [4]	NA	NA	NA	NA	NA
Interactive impact of provisions upon medicaid	−11	−16	−21	−29	−34

[1] CBO has included the impact of this provision in the estimates for mandating the job search and community work experience programs.

[2] In fiscal year 1984, this provision saves $40 million in medicare and $1 million in medicaid.

[3] Included in HI totals in table 1 even though these are program management savings.

[4] CBO did not estimate this provision due to a lack of data.

TABLE 4.—ADMINISTRATION ESTIMATES OF AFDC, CSE, SSI, AND MEDICARE BUDGET IMPACTS BY PROVISION

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
AFDC					
Remove parent from AFDC assistance unit when youngest child reaches age 16:					
AFDC	−34	−17	−19	−17	−18	−19
Medicaid	−48	−53	−58	−64	−71
Food stamps	9	10	9	9	10
Net budget impact	−56	−62	−66	−73	−80
Include parents and minor siblings in assistance unit:					
AFDC	−143	−144	−148	−148	−152
Medicaid	93	102	112	123	136
Food stamps	46	47	48	48	49
Net budget impact	−4	5	12	23	33
Mandate proration of shelter and utility costs:					
AFDC	−263	−266	−272	−275	−283
Medicaid	−9	−10	−10	−12	−13
Food stamps	136	138	141	143	147
Net budget impact	−135	−138	−141	−144	−149
Mandate job search and community work experience programs (CWEP):					
AFDC	−171	−342	−324	−303	−307
Medicaid	- 252	−419	−471	−526	−591
Food stamps	0	0	0	0	0
Net budget impact	−423	−761	−795	−829	−898
Allow States to require parents to register for work and CWEP when youngest child attains age 3:					
AFDC	−23	−63	−64	−65	−67
Medicaid	0	0	0	0	0
Food stamps	0	0	0	0	0
Net budget impact	−23	−63	−64	−65	−67
Sanction voluntary quit:					
AFDC	−1	−1	−1	−1	−1
Medicaid	0	0	0	0	0
Food stamps	0	0	0	0	0
Net budget impact	−1	−1	−1	−1	−1
Require single minor mothers to live with parents:					
AFDC	−19	−20	−20	−20	−20
Medicaid	−12	−13	−14	−15	−16
Food stamps	10	10	10	10	10
Net budget impact	−21	−23	−24	−25	−26

TABLE 4.—ADMINISTRATION ESTIMATES OF AFDC, CSE, SSI, AND MEDICARE BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
Eliminate benefits if parent leaves home to look for employment:					
AFDC	−5	−5	−5	−5	−5
Medicaid	−2	−2	−2	−3	−3
Food stamps	3	3	3	3	3
Net budget impact	−4	−4	−4	−5	−5
CHILD SUPPORT ENFORCEMENT					
Modify financial incentive payments structure:					
CSE—Reduce administration match	0	−39	−42	−44	−47
Modify incentive payments	0	33	38	48	54
Application and collection fees	−36	−39	−42	−48	−54
Interstate special project fund	15	15	15	15	15
ADP costs	0	5	5	0	0
Case level effect	13	41	71	90	95
Subtotal	(−8)	(16)	(45)	(61)	(63)
AFDC—Cost avoidance	−7	−21	−38	−47	−50
Net budget impact	−15	−5	7	14	13
Mandate State laws:					
AFDC—Special practices	−16	−21	−23	−25	−26
CSE—Administrative savings	−11	−11	−11	−11	−11
Net budget impact	−27	−32	−34	−36	−37
SUPPLEMENTAL SECURITY INCOME					
OASDI and SSI cross program recovery:					
SSI	−16	−16	−15	−14	−15
MEDICARE					
1-month eligibility delay:					
Medicare part A	−190	−210	−230	−250	−280
Medicare part B	−75	−95	−110	−125	−140
Medicaid	16	18	20	22	23
Net budget impact	−249	−287	−320	−353	−397
Index part B deductible:					
Medicare part B	−40	−90	−165	−255	−355
Medicaid	3	6	10	13	14
Net budget impact	−37	−84	−155	−242	−341
Freeze physician reimbursement: [1]					
Medicare part B	−600	−775	−875	−1,000	−1,125
Medicaid	−20	−23	−24	−26	−28
Net budget impact	−620	−798	−899	−1,026	−1,153
Lower reimbursement for durable medical equipment:					
Medicare part A	−20	−25	−25	−30	−30
Medicaid	2	2	2	2	2
Net budget impact	−18	−23	−23	−28	−28

TABLE 4.—ADMINISTRATION ESTIMATES OF AFDC, CSE, SSI, AND MEDICARE BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

Program	1985	1986	1987	1988	1989
Voluntary voucher:					
Medicare part A	0	33	33	33	33
Medicare part B	0	17	17	17	17
Net budget impact	0	50	50	50	50
Increase the part B premium:					
Medicare part B	−296	−1,106	−2,319	−3,710	−5,318
Medicaid	6	53	119	198	294
Net budget impact	−290	−1,053	−2,200	−3,512	−5,024
Competitive bidding [2]	−5	−7	−11	−12	−14
Simplify processing of part A bills [2]	−3	−4	−4	−4	−5
End stage renal disease networks [2]	−5	−5	−5	−5	−5
Railroad Retirement Board contractor [2]	−2	−2	−2	−2	−2
Volume purchasing, medicare part B	0	−5	−16	−69	−132

[1] In fiscal year 1984, this provision saves $150 million in medicare outlays.
[2] Included in HI totals in table 2 even though these are program management savings.

TABLE 5.—ADMINISTRATION'S ESTIMATES OF BUDGET EFFECT OF REVENUE PROPOSALS

[By fiscal year, in billions of dollars]

Item	1985	1986	1987	1985–87
Revenue increases:				
Health insurance cap	3.9	6.5	8.0	18.3
Tax-exempt leasing	1.7	2.7	4.0	8.4
Private purpose tax-exempt bonds	.2	.4	.8	1.4
Tax shelter provisions	.5	1.3	1.1	2.9
Accounting abuses	2.5	2.3	2.8	7.5
Corporate reforms	.2	.7	.9	1.8
Institution of withholding system—gains recognized by foreign person on the sale of U.S. real property	.1	(1)	(1)	.1
Total, revenue increases	9.1	13.9	17.4	40.4
Revenue reductions:				
Enterprise zones	−.1	−.4	−.8	−1.3
Tutition tax credits	−.3	−.6	−.9	−1.8
Education savings accounts	(2)	−.1	−.3	−.5
Increase in spousal IRA limit	−.3	−.7	−.8	−1.8
IRA deduction limit—taxable alimony as compensation	(2)	(2)	(2)	(2)
Nonprofit dependent care facilities—tax-exempt status	(2)	(2)	(2)	(2)
Increase in dependent care tax credit	(2)	−.1	−.1	−.3
Tax exemption for military personnel killed in action overseas				
Extension of credit for research and experimental expenditures		−.4	−.7	−1.1
Extension of moratorium on application of existing research and experimental allocation regulations	−.1	−.1		−.2
Extension of targeted job tax credit	−.2	−.4	−.4	−.9
Extension of payment-in-kind program	(2)	(1)		(1)
Life insurance company taxation	−.8	−.9	−1.0	−2.8
Total, revenue reductions	−1.9	−3.8	−5.0	−10.6
Other items:				
Replacement of DISC system of tax deferral	(2)	(2)	.1	(2)
Trusts for investment in mortgages	(2)	(2)	(2)	(2)
Cafeteria plans	(1)	(1)	(1)	(1)
Total, other items	(2)	(2)	.1	(2)
Additional items affecting budget receipts [3]	.7	1.5	1.6	3.9
Grand total, all proposals	7.8	11.6	14.1	33.5

[1] Gain of less than $50,000,000.

[2] Loss of less than $50,000,000.

[3] Of these additional items, those having the most significant effect on budget receipts are proposals to provide for changes in contributions to civil service retirement and to extend Federal/State unemployment insurance coverage to railroad retirement.

Note.—Details may not add to totals due to rounding.

Source: Estimates provided by the Office of the Secretary of the Treasury.

TABLE 6.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS FOR FISCAL YEARS 1984, 1985, 1986, 1987, AND 1988

[In billions of dollars]

	1984	1985	1986	1987	1988
Social security	182.0	193.2	205.8	220.1	235.8
OASI	163.1	174.0	186.4	200.1	214.5
DI	18.9	19.2	19.4	20.1	21.3
Medicare	65.6	75.2	84.0	94.9	107.5
Health insurance	44.4	50.7	55.7	62.3	69.9
Supplementary medical insurance	21.2	24.5	28.3	32.6	37.6
Trade adjustment assistance	([1])	.1	.1	.1	.1
Unemployment assistance	21.2	18.6	17.6	17.7	18.1
AFDC	8.0	7.9	8.2	8.5	8.8
Child support	.6	.6	.7	.7	.8
Earned income tax credit	1.1	1.0	1.0	.9	.9
SSI	8.3	9.3	9.7	10.2	11.6
Social services (title XX)	2.8	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	.6	.7	.7	.8	.8
SMI premiums	−4.9	−5.8	−6.3	−6.8	−7.3
Total	285.3	303.5	324.2	349.8	379.8

[1] Less than $50 million.

Note.—SSI estimates include 13 months of benefits in fiscal year 1988. Fiscal year 1984 includes 11 months of benefits.

Source: Congressional Budget Office.

TABLE 7.—PERCENTAGE CHANGE IN BENEFITS TO INDIVIDUALS RESULTING FROM LEGISLATIVE CHANGES ENACTED DURING 1981, 1982, AND 1983 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS [1]

	Fiscal year—				
	1982	1983	1984	1985	1986
Trade adjustment assistance	−92.9	−96.6	−93.2	−90.2	−84.8
Social Security:					
Outlays	−1.1	−2.4	−3.6	−3.7	−4.1
Outlays and taxing benefits [1]	−1.1	−2.4	−4.1	−5.3	−5.7
Unemployment compensation: [2]					
Outlays including FSC	−4.9	8.0	16.9	4.1	−2.3
Outlays, FSC, and lowering UC thresholds [3]	−4.9	5.6	11.2	.9	−5.3
Aid to families with dependent children and child support enforcement [4]	−8.5	−9.3	−10.2	−10.9	−10.8
Supplement security income	.4	1.4	8.5	8.8	8.5
Social services block grant	−21.4	−23.0	−17.7	−20.8	−23.2
Medicare:					
Hospital insurance [5]	−1.0	−6.0	−7.7	−9.1	−7.5
Supplemental medical insurance	−1.1	−2.9	−5.2	−7.5	−8.2
Total:					
Outlays	−2.3	−2.6	−3.4	−4.7	−5.1
Outlays and benefits tax changes	−2.3	−2.8	−3.9	−5.9	−6.3

[1] Negative sign indicates loss in benefits as a result of taxation.
[2] Does not include interest deferral provisions.
[3] U.S. Department of the Treasury estimate. Negative sign indicates loss in benefits as a result of taxation.
[4] Estimate changed from last year primarily because of reduced savings from retrospective accounting, monthly reporting, and the recovery of overpayments provisions. See table 18 in section 8.
[5] Prospective payment savings assume the TEFRA provisions were extended. See table 3, app. I.

TABLE 8.—BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (BY FISCAL YEAR)

	1984	1985	1986	1987	1988	1989
	In billions of dollars					
Baseline revenues:						
High-growth alternative	668	750	825	913	1,024	1,137
CBO baseline projection	663	733	795	863	945	1,016
Low-growth alternative	660	727	754	782	843	890
Baseline outlays:						
High-growth alternative	850	917	995	1,089	1,202	1,323
CBO baseline projection	853	928	1,012	1,112	1,227	1,342
Low-growth alternative	856	936	1,020	1,112	1,200	1,280
Baseline unified budget deficit:						
High-growth alternative	182	168	170	176	178	186
CBO baseline projection	190	195	217	248	282	326
Low-growth alternative	196	209	267	329	357	390
	As a percent of GNP					
Baseline revenues:						
High-growth alternative	18.6	18.8	18.8	18.9	19.2	19.2
CBO baseline projection	18.6	18.7	18.7	18.7	19.0	18.9
Low-growth alternative	18.6	18.8	18.5	18.5	18.6	18.7
Baseline outlays:						
High-growth alternative	23.7	23.1	22.7	22.6	22.6	22.4
CBO baseline projection	23.9	23.7	23.8	24.1	24.6	24.9
Low-growth alternative	24.1	24.2	25.0	26.2	26.5	26.9
Baseline unified budget deficit:						
High-growth alternative	5.1	4.2	3.9	3.7	3.3	3.1
CBO baseline projection	5.3	5.0	5.1	5.4	5.6	6.1
Low-growth alternative	5.5	5.4	6.5	7.8	7.9	8.2

Source: Congressional Budget Office.

TABLE 9.—CBO AND ADMINISTRATION ESTIMATES OF THE ADMINISTRATION'S BUDGET PROGRAM

[By fiscal year, in billions of dollars]

	1984	1985	1986	1987	1988	1989
Revenues:						
Administration estimate	670	745	815	888	978	1,060
CBO estimate	665	741	807	878	964	1,039
Outlays:						
Administration estimate	854	925	992	1,068	1,130	1,184
CBO estimate	851	933	1,018	1,111	1,204	1,287
Deficit:						
Administration estimate	184	180	177	180	152	123
CBO estimate	186	192	211	233	241	248

Source: Congressional Budget Office; Office of Management and Budget.

TABLE 10.—THE BUDGET OUTLOOK UNDER CURRENT POLICIES AND THE ADMINISTRATION'S BUDGET (BY FISCAL YEAR)

	1984	1985	1986	1987	1988	1989
	In billions of dollars					
CBO Baseline: [1]						
Revenues	663	733	795	863	945	1,016
Outlays	852	930	1,012	1,109	1,217	1,323
Deficit	189	197	217	245	272	308
Administration's program as estimated by CBO:						
Revenues	665	741	807	878	964	1,039
Outlays	851	933	1,018	1,111	1,204	1,287
Deficit	186	192	211	233	241	248
	As a percent of GNP					
CBO Baseline [1]						
Revenues	18.6	18.7	18.7	18.7	19.0	18.9
Outlays	23.9	23.8	23.8	24.0	24.4	24.6
Deficit	5.3	5.0	5.1	5.3	5.5	5.7
Administration's program as estimated by CBO:						
Revenues	18.7	19.0	19.0	19.0	19.3	19.3
Outlays	23.9	23.9	24.0	24.1	24.1	23.9
Deficit	5.2	4.9	5.0	5.1	4.8	4.6
Memorandum:						
Gross National Product (in billions of dollars)	3,563	3,910	4,251	4,612	4,987	5,379

[1] The CBO baseline figures are preliminary revisions of those appearing in Congressional Budget Office, "Baseline Budget Projections for Fiscal years 1985–1989" (February 1984).

Source: Congressional Budget Office.

TABLE 11.—THE ADMINISTRATION'S DEFICIT-REDUCTION PROGRAM AS ESTIMATED BY CBO

[By fiscal year, in billions of dollars]

	1985	1986	1987	1988	1989	Cumulative 5-year total
CBO baseline deficit	197	217	245	272	308	1,239
Proposed changes:						
Revenues: [1]						
Taxation of health insurance premiums	−4	−6	−8	−10	−12	−40
Other tax increases	−6	−10	−12	−14	−17	−59
Tax reductions	2	4	5	5	5	22
Subtotal	−8	−12	−15	−18	−24	−77
Outlays:						
National defense	10	21	23	20	11	85
Entitlements and other mandatory spending	−4	−6	−9	−12	−15	−46
Nondefense discretionary spending	−2	−5	−7	−12	−17	−44
Offsetting receipts		−1	−2	−4	−6	−13
Net interest	−1	−2	−3	−5	−10	−20
Subtotal	3	7	2	−13	−36	−38
Total policy changes	−5	−5	−13	−32	−60	−115
President's budget as estimated by CBO	192	211	233	241	248	1,124

[1] Revenue increases are shown with minus signs because they reduce the deficit; revenue decreases, which are displayed with no sign, increase the deficit.

Source: Congressional Budget Office.

TABLE 12.—COMPARISON OF CBO AND ADMINISTRATION ECONOMIC ASSUMPTIONS

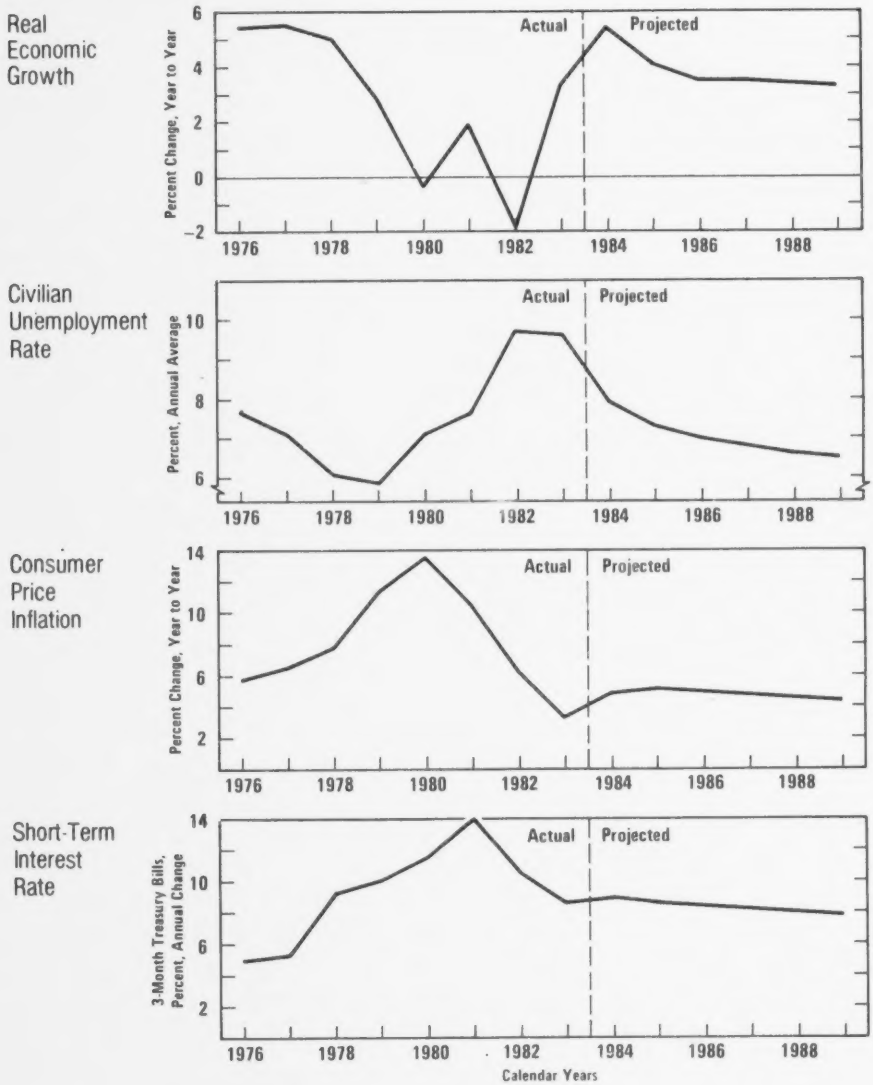
[By calendar year]

	1984	1985	1986	1987	1988	1989
GNP (billions of current dollars):						
CBO	3651.2	3994.8	4339.0	4703.7	5083.5	5480.5
Administration	3642.4	3973.8	4319.2	4681.2	5059.0	5444.9
Difference	8.8	21.0	19.8	22.5	24.5	35.6
Real GNP (1972 dollars, percent change, year over year):						
CBO	5.4	4.1	3.5	3.5	3.4	3.3
Administration	5.3	4.1	4.0	4.0	4.0	3.9
Difference	0.1	0.0	−0.5	−0.5	−0.6	−0.6
GNP Deflator (percent change, year over year):						
CBO	4.7	5.1	4.9	4.7	4.5	4.3
Administration	4.5	4.8	4.5	4.2	3.9	3.6
Difference	0.2	0.3	0.4	0.5	0.6	0.7
Consumer Price Index (percent change, year over year): [1]						
CBO	4.5	5.0	4.9	4.7	4.5	4.3
Administration	4.4	4.6	4.5	4.2	3.9	3.6
Difference	0.1	0.4	0.4	0.5	0.6	0.7
Civilian Unemployment Rate (percent, annual average)						
CBO	7.8	7.3	7.0	6.8	6.6	6.5
Administration [2]	7.9	7.7	7.5	6.9	6.2	5.8
Difference	−0.1	−0.4	−0.5	−0.1	0.4	0.7
3-Month Treasury bills (percent, annual average):						
CBO	8.9	8.6	8.4	8.2	8.0	7.8
Administration	8.5	7.7	7.1	6.2	5.5	5.0
Difference	0.4	0.9	1.3	2.0	2.5	2.8
Inflation-adjusted interest rates: [3]						
CBO	4.2	3.5	3.5	3.5	3.5	3.5
Administration	4.0	2.9	2.6	2.0	1.6	1.4
Difference	0.2	0.6	0.9	1.5	1.9	2.1

[1] Consumer Price Index for urban wage earners and clerical workers.
[2] The administration publishes only the overall unemployment rate. The civilian adjustment is made by CBO.
[3] Defined here as the Treasury bill rate minus growth in the GNP deflator.

Source: Congressional Budget Office.

Figure 1.
Major Economic Assumptions



Source: Congressional Budget Office.

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TABLE 13.—THE EFFECTS ON BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

	1984	1985	1986	1987	1988	1989
Real Growth: [1]						
Change in revenues	4	15	28	46	65	88
Change in outlays	−1	−4	−7	−14	−23	−36
Change in deficit	−5	−18	−36	−60	−88	−124
Unemployment: [1]						
Change in revenues	−20	−32	−35	−36	−36	−39
Change in outlays	4	8	13	18	23	29
Change in deficit	24	40	47	53	60	68
Interest Rates: [1]						
Change in revenues	([2])	1	1	1	1	1
Change in outlays	3	9	13	18	26	31
Change in deficit	2	8	12	17	25	30
Inflation: [1]						
Change in revenues	4	11	20	31	44	57
Change in outlays	3	13	25	38	55	70
Change in deficit	−1	2	5	6	10	13

[1] Effect of 1-percentage-point higher annual rate beginning January 1984.
[2] Less than $500 million.

Source: Congressional Budget Office.

TABLE 14.—CBO ESTIMATES OF ADMINISTRATION SPENDING PROGRAM BY MAJOR CATEGORIES

[By fiscal year]

	1984	1985	1986	1987	1988	1989
	In billions of dollars					
National defense	235	273	315	352	387	419
Entitlements and other mandatory spending	396	423	449	479	514	549
Nondefense discretionary spending	157	162	166	174	179	183
Net interest	109	125	143	164	188	207
Offsetting receipts	−46	−49	−54	−58	−64	−71
Total budget outlays	851	933	1,018	1,111	1,204	1,287
Off-budget spending	15	14	9	8	8	6
Total outlays	866	947	1,028	1,119	1,212	1,293
	As a percent of GNP					
National defense	6.6	7.0	7.4	7.6	7.8	7.8
Entitlements and other mandatory spending	11.1	10.8	10.6	10.4	10.3	10.2
Nondefense discretionary spending	4.4	4.1	3.9	3.8	3.6	3.4
Net interest	3.0	3.2	3.4	3.6	3.8	3.8
Offsetting receipts	−1.3	−1.3	−1.3	−1.3	−1.3	−1.3
Total budget outlays	23.9	23.9	24.0	24.1	24.1	23.9
Off-budget spending	0.4	0.4	0.2	0.2	0.2	0.1
Total outlays	24.3	24.2	24.2	24.3	24.3	24.0

Source: Congressional Budget Office.

PART II

Description of Administration Proposals To Reduce Spending for Programs Under the Jurisdiction of the Committee on Ways and Means

AID TO FAMILIES WITH DEPENDENT CHILDREN

The administration's fiscal year 1985 budget request proposes eight statutory changes in the AFDC program which the administration estimates would produce $633 million in Federal savings in fiscal year 1985. As a result of these changes, HHS estimates that 81,000 families would lose AFDC eligibility, and benefits to over 1 million other families would be reduced. Roughly 11,000 families would receive larger AFDC benefits. Table 1, prepared by the administration, provides the number of families that will lose, gain, or become ineligible as a result of their eight major proposals. Each of these proposals has been suggested in several previous administration budgets; all were a part of the fiscal year 1984 budget request but were not enacted into law.

The President's budget also assumes enactment of 10 technical changes in AFDC which would have little budget impact. Briefly, these are: count lump sum payments received by anyone whose income is considered available; deduct work expenses from gross rather than net income; revise the date for determining eligibility of strikers; expand access to AFDC information; sanction individuals who refuse to repay overpayments; permit Federal agencies to serve as workfare sites; require repayment of AFDC overpayments from retroactive payment of periodic benefits; include organizations as sponsors of aliens; restrict the definition of essential person; and count as income amounts withheld from other benefit programs as a penalty. Under the administration's plan, each of these provisions would become effective upon enactment.

The eight major statutory changes proposed by the administration which have a budgetary impact are described in greater detail in the following pages.

TABLE 1.—ADMINISTRATION ESTIMATES OF NUMBER OF FAMILIES IMPACTED BY MAJOR AFDC LEGISLATIVE PROPOSALS DURING FIRST YEAR THE PROPOSALS ARE EFFECTIVE

Legislative proposal	Increase	Decrease	Ineligible	Diverted
Remove employable caretaker relative when youngest child is 16	12,000	53,000	0	0
Establish a standard filing unit	0	209,000	54,000	0
Prorate shelter and utilities and related needs	0	1,033,000	13,000	0
Less interaction	−1,000	−225,000	0	0
Require all employable individuals to participate in work activities	N/A	N/A	0	121,000
Prohibit payment when absence due solely to employment	0	0	3,000	0
Sanction individuals who terminate or reduce employment	0	2,500	0	0
Expand work registration for parents of children ages 3 to 6	0	0	0	17,000
Total	11,000	1,086,000	81,000	138,000

Source: HHS.

Adjust shelter and utility costs for AFDC families that share households.

Current law and background

A provision in the Tax Equity and Fiscal Responsibility Act of 1982 allows States to adjust the AFDC benefit when the family shares a household with other individuals. States cannot make this adjustment, known as proration, in the case of an SSI recipient to whom a one-third benefit reduction applies. States are given flexibility to determine the proration method, but must prorate on a reasonable basis only that portion of the AFDC grant which the State designates is for shelter and utilities. By regulation, States electing this option must prorate both the need standard and the payment standard and are encouraged to exclude landlords and bona fide tenants from shelter proration. In 1983, five States elected the shelter proration option.

Description of proposal

The administration proposes to require that all States reduce the portion of the AFDC grant that is for shelter and utilities when the assistance unit lives with other non-AFDC recipients. States would used a prescribed method (which would multiply the shelter and utilities portion by the ratio of AFDC recipients to total household members) or could develop an alternative approach. States wishing to use an alternative method would have to first obtain HHS approval and would have to use a technique which produces benefit reductions that, on average, are comparable to those produced by the prescribed methodology. Proration would not be applied to those SSI recipients who receive a one-third reduction in benefits because they are living with others.

Impact

The administration estimates that mandatory shelter and utilities proration will decrease benefits for 1,033,000 AFDC households and eliminate AFDC eligibility for 13,000 families. In fiscal year 1985, Federal AFDC savings from the proposal would total $263 million, according to the administration. The administration estimates total budgetary savings of $135, $138, and $141 million for fiscal years 1985 to 1987 respectively.

The Congressional Budget Office has estimated total budget savings of $65, $105 and $110 million respectively for fiscal years 1985 to 1987 after medicaid and food stamp offsets. This estimate assumes that about 10,000 AFDC families will lose eligibility for AFDC and medicaid as a result of this change, in addition to lowering benefits for another 850,000 families.

Effective date

October 1, 1984.

Require States to establish community work experience programs (CWEP) and mandatory job search.

Current law and background

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated household member, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program which was established in 1967 to provide skills assessment, job training and employment placements to help AFDC recipients to become self-supporting. In addition, recent legislative changes have permitted, but not required, States to offer several other employment programs. These are WIN demonstrations, community work experience programs, job search, work supplementation and grant diversion.

WIN demonstrations permit States to design an alternative to WIN administered solely by the State welfare agencies. The regular WIN program is jointly administered by the Departments of Health and Human Services and Labor. In 1983, 20 States were operating WIN demonstrations.

Community work experience programs (CWEP) were authorized by the Omnibus Budget Reconciliation Act of 1981 and are commonly referred to as workfare. Under a CWEP program, AFDC recipients may be required to perform community work in exchange for their AFDC benefits. All those required to register for WIN may be required to participate in CWEP. However, unlike WIN, CWEP programs may require parents with children age 3 to 6 years old to participate if day care is available. Persons who are exempt from WIN because they live too far from a WIN project

may also be required to participate in CWEP. States receive 50 percent Federal matching for the costs of administering CWEP. However, these costs may not include the cost of materials or equipment, or the cost of supervision of work, and may include only such other costs as the HHS secretary permits. By regulation, reimbursement of participant expenses is limited to $25 per month, unless the States provides these services to the recipient directly. In December 1983, 23 States had opted to implement CWEP; most of these programs do not operate statewide.

The Tax Equity and Fiscal Responsibility Act of 1982 authorized the AFDC job search program, which permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year up to 16 weeks of job search may be required, with 8 weeks per year thereafter. Ten States have implemented or plan to implement some form of job search in 1984.

Finally, States may operate a work supplementation or grant diversion program in which the AFDC benefit is used to underwrite a portion of the wages for a job. In 1984, six States are testing grant diversion programs under waiver authority granted by section 1115 of the Social Security Act.

Each year, since 1981, the administration has proposed the enactment of legislation requiring all States to establish community work experience and job search programs and repealing the authority for the WIN program. In the past, Congress has enacted optional CWEP and job search programs and has chosen not to eliminate the WIN program.

Description of the proposal

The President's fiscal year 1985 budget again proposes to repeal WIN and the WIN demonstrations, replacing these programs with mandatory job search by able-bodied AFDC applicants and recipients, required CWEP participation by the principal earner in a two-parent AFDC family, and CWEP or a subsidized employment program for all other employable AFDC recipients. Fiscal penalties would be imposed against States where less than 75 percent of the population required to register for work is actively participating.

Unlike current law, which leaves the job search program to State option, all able-bodied applicants would be required to engage in job search until the application is approved. Recipients participating in CWEP would also be required to participate in a monthly employment search. States would be given discretion to require job search by other AFDC recipients.

In the proposed subsidized employment program, which would be optional, States could use the AFDC grant to subsidize, for 6 months, the wages of an AFDC recipient. Public or private sector jobs could be subsidized. During the wage subsidy period, the $30 and one-third work incentive would not apply. The subsidized employment program would not have to operate statewide but an employer contribution to the wages would be required.

Impact

The administration estimates that 121,000 AFDC households would be diverted from the AFDC program as a result of these required work activities. Presumably, this is because these families would choose not to apply for AFDC or would leave AFDC rather than meet the work requirements. Fiscal year 1985 Federal AFDC savings would total $171 million, according to the administration. This does not include the savings that would accrue from the repeal of the WIN program, which was funded in fiscal year 1984 at $271 million.

The administration and the Congressional Budget Office differ considerably in their estimates of the impact of this provision. The Congressional Budget Office estimates that this provision will save the Federal $30, $80, and $105 million for fiscal years 1985 to 1987 respectively. The administration estimates savings from the provision of $423, $761, and $795 million for fiscal years 1985 to 1987 respectively. CBO's estimated administrative costs are higher and benefit savings for affected families lower. The CBO estimates also include the savings from expanding work requirements.

Effective date

October 1, 1984.

Create a standard assistance unit.

Current law and background

The AFDC statute does not define what constitutes an AFDC family. When applying for AFDC, household members can exclude themselves from the AFDC unit; this most often occurs if they have income which would reduce the amount of the family benefit. The AFDC benefit for an otherwise eligible family is then based on the income and circumstances of only those family members who apply for aid.

The income of a parent who is not included in the assistance unit is considered available to the dependent child after disregarding amounts for the needs of the parent and any of his or her dependents who do not receive AFDC. The income of children excluded from the unit is not counted at all. The law prohibits SSI benefits from being counted as income when determining AFDC eligibility.

Description of proposal

The administration again proposes to establish a Federal rule defining which individuals living together must be included in the AFDC assistance unit and whose income will be counted as available to members of the assistance unit. There would be two basic provisions. First, States would be required to include the following household members, except those receiving SSI, in the assistance unit: the dependent child(ren); the natural or adoptive parent of a dependent child; any other caretaker relative with whom the child lives, but only if the relative applies for aid; and all minor (blood-related) siblings of the dependent child who live in the household.

Second, if the adult parent of a minor parent is living with but not included in the assistance unit, the State would be required to

count the adult parent's income in determining AFDC eligibility and benefits.

Impact

The administration predicts that 209,000 families would receive decreased benefits and 54,000 families would become ineligible as a result of this proposal. The provision would save $143 million in AFDC costs in fiscal year 1985 according to administration estimates. The administration estimates savings of $4 million in fiscal year 1985 and costs of $5 million and $12 million for fiscal years 1986 and 1987, respectively, after taking into account food stamp and medicaid costs associated with this provision.

The CBO estimates small savings ($5 million) in fiscal year 1985 and small costs of $10 and $15 million in fiscal years 1986 and 1987 respectively. This cost estimate takes into account food stamp and medicaid impacts. CBO's estimate shows more families with reduced AFDC but increased medicaid (about 300,000) than does the administration.

Effective date

October 1, 1984.

Work requirements: Age of dependent child.

Current law and background

A parent or caretaker relative who is providing care on a substantially full-time basis for a child under age 6 is not required to register for work and training under the WIN program. Under the community work experience program (CWEP), States may require parents and caretaker relatives who are caring for a child between the ages of 3 and 6 to participate in CWEP, provided child care is available.

Description of proposal

The option which a State now has under CWEP to require parents and caretaker relatives with a child between the ages of 3 and 6 to participate in work or training if child care is available would be extended to other kinds of employment or training activities.

Impact

The administation estimates that 17,000 AFDC households would be diverted from the AFDC program as a result of this proposal, producing fiscal year 1985 savings of $23 million. The CBO estimates of this provision are included in the estimates for mandatory job search and community work experience programs.

Effective date

October 1, 1984.

Limit assistance for minor mothers.

Current law and background

Under current law, minor parents with AFDC eligible dependent children may live at home with their parents (the grandparents of

the dependent child) or may elect to leave home and establish a separate AFDC unit for themselves and the child. In 1983 the administration proposed to extend AFDC eligibility to minor parents only under certain circumstances. The proposal was not enacted into law.

Description of proposal

The administration is again proposing to provide assistance to a never-married minor parent and a dependent child in his or her care (or to a minor if she is pregnant) only if the minor parent and the child reside with the minor's parents or legal guardian. The proposed policy would not apply when: the minor parent has no parent or legal guardian who is living or whose whereabouts are known; the State agency determines that the health and safety of the minor parent or child would be seriously jeopardized if they lived with the minor caretaker's parents or legal guardian; or the minor parent lived apart from his or her parents or legal guardian for at least 1 year prior to the birth of the child or prior to claiming aid, whichever is later.

A State could, at its option, make a protective payment to a third party on behalf of any minor parent and child who are eligible, thus eliminating the payment of AFDC directly to minors.

Impact

The administration estimates that fiscal year 1985 AFDC savings of $19 million would accrue from this proposal. The administration estimates that 11,000 would become ineligible as a result of this proposal. CBO estimates Federal budgetary savings of $20 million for each year from fiscal year 1985 to 1989.

Effective date

October 1, 1984.

End employable parent's benefit when youngest child reaches age 16.

Current law and background

Under current law, the needs and income of a parent or caretaker relative may be considered when determining benefits for AFDC eligible children. This means, for example, that the needs and income of the person caring for two AFDC eligible children would be factored into the benefit calculation with the AFDC check based on a 3-person family. If such parents or caretakers are employable (i.e., they are not WIN exempt), they must register for work and training. The family may continue to qualify for AFDC—if all other eligibility requirements are met—until the youngest child is 18 or, at State option, age 19 if the child is in high school or vocational school and expected to complete the course of study before turning 19.

Description of proposal

The administration again proposes to end AFDC benefits for the parent or caretaker when the youngest child reaches age 16. For those parents with a source of income who are excluded from the

AFDC unit, the stepparent disregards would be applied. Because the stepparent policy exempts more income than would be disregarded for recipients of AFDC, some families could receive a higher AFDC benefit as a result of the change.

Impact

The administration projects that 53,000 AFDC households would receive reduced AFDC benefits as a result of the proposal. Approximately 12,000 households would receive larger AFDC benefits. Fiscal year 1985 AFDC savings of $17 milllion are projected by the administration. The administration estimates total budgetary savings of $56, $62, and $66 million for fiscal years 1985 to 1987, respectively.

The CBO estimates Federal budgeting savings of $50, $55, and $60 million for fiscal years 1985 to 1987 respectively, including medicaid and food stamp offsets.

Effective date

October 1, 1984.

End benefits based on employment-related absence.

Current law and background

If a parent leaves the home in order to look for or maintain employment elsewhere, the remaining members of the family may be eligible for AFDC assistance. If the family meets the AFDC income and resource requirements, the parent may be considered "absent" from the home, thus qualifying the family for AFDC. A provision of the Tax Equity and Fiscal Responsibility Act of 1982 recently amended this policy to provide that absence of a parent, solely by reason of active duty in the military (or other U.S. uniformed services), will not be considered absence of a parent and which, under prior law, could have qualified the child(ren) for AFDC. This policy currently applies only to active duty in a uniform service and does not affect absence for other types of employment.

Description of proposal

The administration proposes to prohibit AFDC eligibility and payments when parental absence (and therefore, AFDC eligibility) is solely due to employment or employment-related activity.

Impact

The administration estimates that 3,000 families would be made ineligible for AFDC as a result of this proposal, producing fiscal year 1985 savings of $5 million in AFDC. CBO projects similar budgetary savings of $5 million for each year from 1985 to 1989.

Effective date

October 1, 1984.

Remove the parent/caretaker from the assistance unit for voluntarily quitting work, reducing earnings, refusing employment or refusing a CWEP assignment.

Current law and background

If an employable AFDC applicant or recipient refuses to participate in WIN or work without good cause, sanctions may be imposed. In the case of the principal earner in an unemployed parent family, the sanction is the denial of benefits for the entire family. In other cases, the individual who refuses is removed from the grant and the family's benefit reduced. The sanction period is 3 months in the case of a first refusal and 6 months in the case of any subsequent refusals. The sanctions also apply if the WIN registrant voluntarily quits work, reduces earnings, or refuses a CWEP assignment.

Sanctions may not be applied to persons who are not currently required to register for WIN, including those who are employed 30 hours or more per week and individuals who live in an area so remote from a WIN site that their participation is precluded.

Description of proposal.

As in 1982 and 1983, the administration is proposing to extend sanctions to non-WIN registrants who are employed 30 hours or more a week or who live in an area so remote from a WIN program that their participation is precluded.

These penalties for persons who reduce work, refuse a job or voluntarily quit would apply to actions taken prior to application for AFDC as well as after application or receipt of AFDC. The HHS secretary, by regulation, would determine how long the sanction period should be.

Impact

The administration estimates that approximately 2,500 AFDC households would experience decreased AFDC benefits as a result of this proposal. Federal savings would total $1 million in fiscal year 1985 and each succeeding year, according to administration estimates. CBO projects similar savings.

Effective date

October 1, 1984.

CHILD SUPPORT ENFORCEMENT

Improve State performance and alter CSE financing.

Current law and background

The child support enforcement (CSE) program was enacted in 1975. Under the program, States locate absent parents, establish paternity and obtain and enforce support orders for AFDC and non-AFDC families. The Federal Government currently pays 70 percent of State administrative expenses for CSE and 90 percent of the costs for automated data processing development. Child support collections for AFDC families are distributed between the State and Federal Governments according to the matching rate for the AFDC program and are used to reimburse AFDC expenditures on behalf of the family. To encourage AFDC collections, States receive an incentive payment from the Federal share of collections equal

to 12 percent of their total AFDC collections. This incentive system does not now reward collections on behalf of non-AFDC families. Both the basic Federal match and the AFDC incentive payment have been reduced in recent years.

On November 16, 1983, the House of Representatives adopted H.R. 4325, the Child Support Enforcement Amendments of 1983, by a vote of 422–0. These amendments would make needed improvements in the current program by: requiring States to implement effective practices, such as income withholding; retaining the 70 percent Federal administrative match but replacing the 12 percent incentive with a new incentive system which rewards AFDC and non-AFDC performance; encouraging States to develop innovative techniques for enforcing interstate support obligations; and other improvements designed to assure that all children in the United States who need help in obtaining financial support from their parents will receive this assistance, regardless of their circumstances. H.R. 4325 is currently awaiting action by the Senate.

Description of proposal

The administration's fiscal year 1985 budget assumes enactment of the provisions of H.R. 4325, with five changes. These are:

A reduction of the Federal administrative match to 65 percent, beginning October 1, 1985.

Section 3 of H.R. 4325—the required State procedures—would be effective October 1, 1984, with authority granted to the HHS secretary to waive the effective date until the close of the State's first legislative session ending after the date of enactment of H.R. 4325. (October 1, 1985, is the effective date for these procedures in H.R. 4325.)

Eliminate section 18 of H.R. 4325 which continues medicaid eligibility for 4 months to families who lose ADFC as a result of child support payments.

For the incentive system, set the dollar value of the non-AFDC incentive at equal to the AFDC incentive. (H.R. 4325 sets the non-AFDC incentive at 125 percent of the AFDC incentive.)

Require States to charge application fees of at least $25 and collection fees, as determined by the HHS secretary, from absent parents who fail to pay their support obligations on a timely basis. (Fees are currently a State option.)

Impact

The administration estimates that enactment of H.R. 4325, with the modifications outlined above, would produce a net Federal savings of $42, $37, and $27 million in fiscal years 1985 to 1987, respectively. CBO estimates total savings of $0 million, $50 million, and $50 million for fiscal years 1985 to 1987, respectively. The difference is primarily in CBO's lower estimated savings from requiring fees, particularly in 1985.

Effective date

October 1, 1984, for the required State procedures; October 1, 1985, for the reduced Federal match and new incentive system.

SUPPLEMENTAL SECURITY INCOME (SSI)

Recovery of SSI overpayments.

Current law and background

The Secretary is authorized to recover SSI overpayments by adjusting future payments, or by recovery from the recipient. Recovery of overpayments is to be made with a view to avoiding penalizing the individual who is without fault. Recovery of overpayments is not required, for example, if the individual is without fault and if recovery would defeat the purpose of the program, or be against equity or good conscience, or the amount to be recovered is so small as to impede efficient or effective administration.

Description of proposal

As in 1982 and 1983, the administration's proposal would allow recovery of SSI overpayments from benefits payable under other programs administered by the Social Security Administrastion (black lung and OASDI benefits). This requires a change in OASDI law, not SSI law.

Impact

Both CBO and the administration estimate reduced expenditures of $16 million, $16 million, and $15 million for fiscal years 1985 to 1987 respectively.

Effective date

October 1, 1984.

CHILD WELFARE SERVICES

Consolidation of child welfare services and child welfare training.

Current law and background

Under current law, funds under the child welfare services program go to the States on a formula basis, with a Federal matching rate of 75 percent. Child welfare training funds are awarded on a discretionary basis by the Administration for Children, Youth and Families in the DHHS. In the past, most training funds have been awarded to schools of social work to support students and develop curricula. In recent years some support has shifted to training activities in State child welfare agencies and other nonacademic settings, although a significant amount of training funds still go to social work schools.

Description of proposal

The fiscal year 1985 budget proposes to merge the child welfare services and child welfare training programs into one formula grant to States. Under this proposal, the child welfare training program as it currently exists would be eliminated; States could use funds from the new combined authority to fund both services and training. There would be no further Federal discretionary training grants to social work schools or any other non-State entities.

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Impact

Relative to current law and expenditure levels this proposal will not reduce Federal expenditures in fiscal year 1985.

Effective date

October 1, 1984.

SOCIAL SERVICES BLOCK GRANTS

Combine community services block grant with the social services block grant.

Current law and background

The social services block grant program, authorized by title XX of the Social Security Act, provides allotments to States according to their relative population size. States are free to design their own social services programs within broad Federal guidelines. General goals include economic self-support and the prevention or reduction of dependency. States determine their own eligibility criteria and program mix. The program is an appropriated entitlement with a nationwide ceiling; that is, States are entitled to receive their portion of the total amount appropriated up to a nationwide maximum. Current law provides that the ceiling is $2.7 billion.

The community services block grant (CSBG), created in 1981, replaced programs formerly administered by the Community Services Administration (CSA), which itself succeeded the antipoverty agency, the Office of Economic Opportunity. States may use community services block grant funds for programs intended to prevent or reduce poverty and to encourage economic self-sufficiency. In the first year of CSBG, fiscal year 1982, States were required to pass through 90 percent of their block grant money to grantees who had formerly received funds from CSA. The same rule applies this year to most States. This program is under the jurisdiction of the Committee on Education and Labor.

Description of proposal

The administration proposes to spend the full amount authorized in fiscal year 1984 for social services block grants. Two related programs would be terminated entirely under the administration's fiscal year 1984 budget request. In fiscal year 1984, WIN is funded at $267 million and CSBG at $352 million.

Impact

The CBO estimates that $497, $700, $734, $771, and $805 million for fiscal years 1985 to 1989 respectively will be saved as a result of combining WIN and CSBG with the social services block grant with no increase in funding above that authorized in the social services block grant.

Effective date

October 1, 1984.

UNEMPLOYMENT COMPENSATION

Coverage of railroad workers under the regular Federal-State unemployment insurance system.

Current law and background

Since 1938, the Railroad Unemployment Insurance Act (Public Law 75-722) has provided a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived.

Description of proposal

The administration will submit legislation to combine railroad unemployment insurance with the regular Federal-State unemployment insurance system. Under this legislation the rail employers and employees would be treated as are all other employers and employees under the regular Federal-State unemployment insurance programs. The legislation would be effective January 1, 1985.

Current railroad unemployment insurance taxes would remain to pay back the substantial loans that the Railroad Retirement Account has made to the Railroad Unemployment Insurance (RRUI) program. The Railroad Retirement Solvency Act of 1983 (Public Law 98-76) prohibits further such lending, effective September 30, 1985, but without further action, RRUI will become insolvent. A committee established under Public Law 98-76 is to submit a report on the program to the Congress no later than April 1, 1984; to date, however, the committee has made no specific proposals.

The administration estimates that the proposal would increase revenues by upwards of $1 billion over the 5-year period. CBO has not reestimated the revenue effects of the proposal because of the lack of specific detail. CBO's estimate of such a proposal is unlikely to be very different, however.

TRADE ADJUSTMENT ASSISTANCE

Worker Program

Training, job search and relocation services.

Description of proposal

The administration intends that training, job search and relocation allowances, and related services to eligible workers under the trade adjustment assistance program be provided under the discretionary funding authority of the dislocated worker program under title III of the Job Training Partnership Act. (Public Law 97-300). Of the $55.750 million appropriated to this account for program year 1984 (July 1, 1984 to June 30, 1985), the amount to be made available for trade adjustment assistance training is not known at this time.

Firm Program

No funding of program in fiscal year 1985.

Current law and background

Under the Trade Act of 1974 as amended, firms certified eligible by the Secretary of Commerce for trade adjustment assistance may receive financial assistance (direct loans and/or loan guarantees) and/or technical assistance upon approval of an adjustment plan. Industrywide technical assistance grants are also available. The program was reauthorized under Public Law 98-120 for 2 years until September 30, 1985.

Description of proposal

The administration requests no funding of the trade adjustment assistance program for firms in fiscal year 1985 thereby effectively terminating the program 1 year prior to its statutory termination date.

Impact

[Dollars in millions]

	Fiscal year 1984 currently available
Direct loans	$7.500
Technical assistance	15.500
Loan guarantee authority	(15.000)
Program operations [1]	2.000
Total	25.000

[1] Supports 28 permanent staff positions.

Legislative proposals

Title XI of H.R. 4170, the Tax Reform Act of 1983, as reported by the Committee on Ways and Means on October 21, 1983, contains the following three amendments to the trade adjustment assistance programs for workers and firms. These provisions are identical to sections 3, 6, and 8 of H.R. 3391 as it passed the House on September 15, 1983 and do not involve budgetary costs.

Limitations on Trade Readjustment Allowances

Under present law a worker may receive up to 26 weeks of additional trade readjustment allowances (TRA) in order to complete training. However, a worker can collect the extra 26 weeks of benefits only during the 26-week period immediately following exhaustion of his entitlement to basic TRA (i.e., the 52-week period after exhausting regular unemployment compensation). As a result, workers are often denied benefits due to delays in certification or training approval.

The bill amends section 233(a)(3) of the Trade Act to enable workers to collect the additional weeks of TRA beginning with the first week the worker enters training if that training has not been

approved until after the last week of entitlement to basic TRA benefits.

Job Search and Relocation Allowances

The bill amends section 237 of the Trade Act to increase the maximum job search allowance for workers from $600 to $800 and amends section 238 of that act to increase the maximum lump sum allowance for worker relocation from $600 to $800.

Assistance to Industry

The bill amends section 265 of the Trade Act by extending eligibility for industry-wide technical assistance under the firm program to industries in which a substantial number of workers have been certified eligible for trade adjustment assistance. Currently, an industry can qualify for such assistance only if a substantial number of firms in that industry have been certified.

The bill also increases the maximum annual amount of technical assistance available per industry from $2 million to $10 million in order to provide technical "seed" money for basic industries.

MEDICARE

Voluntary medicare voucher program.

Current law and background

Under present law medicare payments are made on behalf of beneficiaries to hospitals and other institutions who participate in the Government-sponsored program and through payment arrangements to or on behalf of beneficiaries in the case of physician and other medical services.

Description of proposal

The administration proposes to establish a voluntary medicare voucher program under which beneficiaries could elect to receive services through a private health benefits plan (including certain health maintenance organizations) rather than through participation in medicare. Private plans would have to offer benefits at least equivalent to medicare.

The Government would contribute an amount equal to 95 percent of the average per-person cost of medicare coverage toward the purchase of private protection.

Impact

The administration estimates increased medicare expenditures of $50 million for each year from fiscal year 1986 to 1989.

Delay in initial eligibility date for medicare entitlements.

Current law and background

Under current law, eligibility for medicare begins on the first day of the month in which an individual reaches age 65.

Description of proposal

The administration proposes to delay eligibility for both parts A and B of medicare to the first day of the month following the individual's 65th birthday.

Impact

The CBO estimates reduced medicare outlays of $155, $175, and $195 million for fiscal years 1985 to 1987 respectively for part A. The part B savings are estimated to be $75, $90, and $100 million, and total medicare savings of $230, $265, and $295 million for fiscal years 1985 to 1987 respectively. Approximately 1.7 million individuals will be impacted by the provision. It is unclear at whose expense these savings occur. It could be the beneficiaries or their employers or their private health insurance carriers.

The administration estimates total medicare (parts A and B) savings of $265, $305 and $340 million for fiscal years 1985 to 1987 respectively.

Effective date

October 1, 1984.

Reduce reimbursement to home health agencies for durable medical equipment.

Current law and background

Under present law, when covered durable medical equipment (e.g., crutches, wheelchairs) is furnished by a supplier of services, rather than by a provider, payment is made under the part B program on the basis of 80 percent of the reasonable charges (after the deductible is satisifed). If the equipment is furnished by a provider, such as a home health agency, payment is made on the basis of 100 percent of the reasonable cost of the rental or purchase of such equipment.

Description of proposal

The administration proposal would reimburse home health agencies for durable medical equipment at 80 percent of reasonable cost and permit the agencies to bill beneficiaries for the remaining 20 percent.

Impact

Both CBO and the administration estimate reduced medicare outlays by $20, $25, and $25 million for fiscal years 1985 to 1987 respectively.

Effective date

October 1, 1984

Competitive procurement of laboratory services, durable medical equipment and other medical supplies.

Current law and background

Under medicare, it is generally the physician or retail supplier who selects the sources of services and equipment required by a beneficiary.

Description of proposal

The administration proposes to employe competitive purchasing procedures for the procurement of laboratory services, durable medical equipment and other medical supplies. The proposal will include safeguards to assure beneficiary access to needed equipment and services. It will also limit beneficiary out-of-pocket expenditures to required coinsurance and deductible payments; where appropriate, beneficiary cost-sharing would be waived.

Impact

This provision according to the administration will reduce medicare part B expenditures by $0, $5, and $16 million for fiscal years 1985 to 1987 respectively.

Effective date

October 1, 1984.

Freeze reasonable charges for physician services.

Current law and background

Under present law, medicare pays physicans on the basis of medicare-determined "reasonable charges" for services provided to beneficiaries. "Reasonable charges" are the lesser of: a physician's actual charges, the customary charges made by an individual physician for specific services, or the prevailing level of charges made by other physicians for specific services in a geographic area. The amounts recognized by medicare as customary and prevailing charges are updated annually (on July 1) to reflect changes in physician charging practices. Increases in prevailing charge levels are further limited by an economic index which reflects changes in the operating expenses of physicians and in general earnings levels.

Description of proposal

The administration proposes to postpone, through June 30, 1985, the annual updating of both the customary and prevailing charge limits for physicans services that would otherwise occur on July 1, 1984. The limits would remain at their current levels throughout the 1-year period beginning July 1, 1984.

Impact

According to the administration this proposal is expected to reduce medicare outlays by $150, $600, $775, and $875 million for fiscal years 1984 to 1987 respectively. CBO estimates reduced medicare outlays of $40, $715, $815, and $920 million for fiscal years 1984 to 1987 respectively. The impact upon beneficiaries is difficult to ascertain. Some beneficiaries will experience smaller co-payments as a result of the freeze. Other beneficiaries will experience cost increases as a result of fewer doctors taking assignment and physicians charging patients more as a result of the freeze.

Effective date

July 1, 1984, through June 30, 1985.

Increase in part B premium.

Current law and background

Under present law, the Secretary of Health and Human Services is required to calculate each year the increase in premiums of those who elect to enroll in the supplementary medical insurance (or part B) portion of the medicare program. The new premium rates are effective on January 1 of the year following the year in which the calculation was made. Ordinarily, the new premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits are increased under the cost-of-living (COLA) provisions of the social security programs. Premium income, which originally financed half of the costs of part B, has declined—as the result of this formula—to less than 25 percent of total program income. Section 124 of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), however, temporarily suspended the limitation for two 1-year periods, beginning on July 1, 1983. During these periods, enrollee premiums would be allowed to increase to the amount necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The limitation would again apply with respect to periods beginning July 1, 1985, and thereafter. Public Law 98-21 deferred the effective date and specified that the TEFRA limitations are to apply for the 2-year period beginning January 1, 1984.

Description of proposal

Beginning in 1985, the premium would be allowed to increase by no more than 1⅔ percentage points per year so that by calendar year 1990, the premium would be set at a rate equal to 35 percent of the costs of the program for the aged.

Impact

The CBO estimates increased premiums by medicare part B enrollees of $296, $1,168, $2,316 and $3,734 million for fiscal years 1985 through 1988 respectively. The premium for calendar year 1984 is $14.60 per month. The increase in the January 1, 1986, premium is estimated to be $4.00 if the other SMI proposals are not enacted and $3.20 assuming the other proposals are enacted. The administration and CBO estimates of the premium increase are shown in the table below:

PREMIUM AMOUNTS UNDER CURRENT AND PROPOSED LAW

	1985	1986	1987	1988	1989
Administration estimates:					
Current law(1)	16.90	17.60	18.40	19.20	20.00
Proposed premiums:					
With other medicare proposals	17.30	20.80	24.70	29.20	34.30
Without other medicare proposals	18.00	21.60	25.70	30.50	36.00

PREMIUM AMOUNTS UNDER CURRENT AND PROPOSED LAW—Continued

	1985	1986	1987	1988	1989
CBO estimates:					
Current law	16.90	17.70	18.60	19.50	20.40
Proposed premiums:					
With other medicare proposals	17.50	21.00	24.80	29.20	34.40
Without other medicare proposals	18.00	21.60	25.60	30.30	35.60

Effective date

January 1, 1985.

Index part B deductible.

Current law and background

By law, enrollees in the supplementary medical insurance (or part B) portion of medicare must pay the first $75 of covered expenses (known as the deductible) each year before any benefits are paid. The amount of this deductible is fixed by law.

Description of proposal

The administration proposes, beginning in calendar year 1985, to increase the part B deductible by the same percentage as the increase in the medicare economic index. (This is the index used to set limits on increases in prevailing charges for physician services.)

Impact

The administration estimates that this proposal would increase the current deductible of $75 to $78 beginning January 1, 1985. The deductible would increase to $82, $86, $91, and $96 for calendar years 1986 to 1989 respectively.

This proposal will reduce part B expenditures by $40, $90, and $165 million for fiscal years 1985 to 1987 respectively, according to the administration.

Effective date

January 1, 1985.

Elimination of end stage renal disease (ESRD) networks.

Currrent law and background

Current law requires the establishment of renal disease network areas and network organizations. Each organization is composed of a coordinating council, executive committee of the council, and a medical review board. Networks provide advice to health care review and planning organizations on the quality of services given ESRD patients and the need for ESRD services and facilities. The networks are also responsible for encouraging the placement of patients in the most appropriate and least costly treatment settings.

Description of proposal

The administration proposes elimination of the ESRD program networks.

Impact

This provision according to CBO and the administration will reduce medicare outlays by $4 million in each fiscal year 1985, 1986, and 1987.

Effective date

October 1, 1984.

Railroad Retirement Board claims.

Current law and background

The Railroad Retirement Board is required to contract with a carrier or carriers to handle medicare part B payments with respect to railroad retirement beneficiaries. The Board has contracted with Travelers Insurance Co, to serve as a carrier nationwide; in contrast, other medicare carriers serve smaller geographic areas.

Description of proposal

The administration proposes to repeal the provision under which the Railroad Retirement Board chooses the part B carrier for railroad beneficaries.

Impact

CBO and the administration estimate reduced outlays of $2 million per year.

Intermediary payments.

Current law and background

Under medicare, intermediary payments for services rendered to a beneficary in more than one hospital during a benefit period are made in the order the services are rendered.

Description of proposal

The administration proposes to require that intermediary payments be made in the order bills are received from the hospitals.

Impact

This provision according to CBO will have negligible impact on medicare outlays.

Effective date

October 1, 1984.

Program management proposals.

The adminstration proposes several medicare and medicaid related budget initiatives whose savings are included in the program management portion of the budget.

a. *Research, Demonstrations and Evaluation.*—The administration proposes the fiscal year 1985 funding level of $35 million.

b. *Medicare Contractors.*—The administration proposes an increase of $56 million above the fiscal year 1984 funding level for the administration of the medicare program through private contractors.

c. *State Certification.*—The administration proposes a $10 million net increase in outlays from the fiscal year 1984 level for State certification activities.

d. *ESRD Network Coordinating Councils.*—The administration requests no funding for the activities of end stage renal disease (ESRD) network coordinating councils. The administration estimates that this will result in an estimated outlay reduction of $5 million from fiscal years 1985 to 1987.

e. *Administrative Cost.*—The administration requests a $10 million increase over the fiscal year 1984 level for administrative costs for medicare and medicaid.

PENSION BENEFIT GUARANTY CORPORATION (PBGC)

Current law and background

The Pension Benefit Guaranty Corporation (PBGC) was established by the Employee Retirement Income Security Act of 1974 (ERISA). This wholly-owned Government corporation administers two self-financing programs of mandatory termination insurance to prevent loss of pension benefits under covered private, defined-benefit pension plans if plans terminate or if multiemployer plans are unable to pay benefits. Terminated plans are taken over by the Corporation. PBGC assumes control of their assets, administers them in a trust fund invested by professional money managers, and pays the monthly pensions required by the particular plan, up to a maximum set by law.

Under ERISA, PBGC's single employer insurance program provides insurance protection for about 30 million participants in more than 106,000 private defined benefit pension plans.

The single employer program is financed by per capita annual premiums from ongoing covered plans, assets from terminated plans, investment income, and amounts due PBGC from the sponsors of terminating plans (employer liability). Also, PBGC is authorized to borrow up to $100 million from the U.S. Treasury.

Premiums are collected annually from plans based on the number of plan participants. The annual premium rate was originally set at $1.00 per participant in 1974 and was increased to $2.60, effective January 1, 1978.

Because liabilities assumed under terminated plans exceed income from all sources, PBGC has a growing deficit that is expected to reach $622 million by the end of 1985 under current law. In May 1982 PBGC submitted to the Congress a request for a premium rate increase to $6.00 per plan participant for plan years commencing on or after January 1, 1983.

Description of proposal

The budget reflects the administration's request that the Congress approve an increase in the single employer premium rate to $7.00 to cover projected claims and amortize the current deficit over a reasonable period of time. The administration also supports legislation to revise the insurance program for single employer plans to prevent unwarranted assignment to PBGC of liabilities for unfunded benefits.

Impact

Both CBO and the administration estimate that PBGC's premiums will be increased (in budget terms this will be treated as outlay reductions) by $101, $154, $168 and $199 million for fiscal years 1984, 1985, 1986 and 1987 respectively.

Effective date

Plan years beginning on or after January 1, 1984.

PART III

Summary of Administration's Revenue Proposals

SUMMARY OF ADMINISTRATION'S REVENUE PROPOSALS

The administration's fiscal year 1985 budget document includes a number of revenue increase proposals that it estimates will increase revenues in the aggregate by $9.1 billion in fiscal year 1985 and by $40.4 billion over the 3-year period of fiscal years 1985–1987. The budget also proposes several revenue reduction measures that would in the aggregate decrease budget receipts by $1.9 billion in fiscal year 1985 and by $10.6 billion over the fiscal years 1985–1987. The overall effect on budget receipts of the administration's revenue proposals is to decrease net revenues by $7.8 billion in fiscal year 1985 and by $33.5 billion over the 3-year period. (See table in Part I.) Further, the budget includes other revenue-related proposals that the administration estimates will not have a long-run impact on revenues.

Revenue increase items

The administration's budget includes the following proposed revenue increase items:

(1) A limitation on the exclusion for employer-provided health insurance premiums (i.e., inclusion of part of those premiums in taxable income and in wages for employment tax purposes).

(2) A reduction in the tax benefits available for certain property that is leased to or otherwise used by tax-exempt entities.

(3) Imposition of a $150 per capita annual volume cap on the amount of tax-exempt industrial development bonds and student loan bonds that States and localities can issue, a reduction of accelerated cost recovery deductions for certain facilities financed with IDBs, and imposition of other restrictions limiting the use of IDBs.

(4) The following proposals would deal with partnership and other tax shelter abuses, accounting issues, and provide certain corporate reforms with respect to dividends, mutual funds and foreign corporations.

(a) The administration's budget contains the following proposals to deal with partnership and other tax shelter-related problems:

(i) In the case of cash basis partnerships and tiered arrangements, partnership taxable income or loss would be allocated over the taxable year on a daily basis.

(ii) Gain or loss from a sale of property contributed to a partnership would be allocated to the contributing partner. Certain deductions from contributed property would be allocated to the partners in proportion to their basis in the partnership attributable to capital contributions. Contributed property would retain its character for 5 years.

(iii) Allocations of partnership income to permit the current deduction of otherwise capital expenditures would be prohibited.

(iv) When a partnership interest is sold or exchanged, the partnership would be treated as directly owning its share of property owned by a partnership in which it has an interest, for purposes of determining the amount of ordinary income to the taxpayer.

(v) Tax-free like-kind exchanges would have to be completed within 90 days after the taxpayer transfers the property to be used in the exchange. Exchanges of partnership interests would no longer be tax-free like-kind exchanges.

(vi) Gain on the disposition of a bond reflecting accrued market discount would be taxed as interest income on the disposition of the bond.

(vii) A deduction for charitable contributions of certain appreciated property would be limited to the basis of the property unless the property has been held by the taxpayer for at least 3 years. The overvaluation penalty would apply notwithstanding that the property has been held for over 5 years.

(b) The administration's budget contains the following proposals to deal with accounting and time-value-of-money related problems:

(i) Interest would be required to be accounted for on a consistent interest method in certain deferred payment transactions.

(ii) Syndicates generally would not be allowed a deduction for prepaid expenses.

(iii) Certain interest-free and low-interest loans would be recharacterized as arm's-length transactions.

(iv) Income and deductions would be required to be matched in related party transactions, including transactions between partnerships and partners.

(v) LIFO conformity could not be avoided by using subsidiary corporations.

(vi) A taxpayer could not accrue deductions far in advance of the occurrence of the event which gives rise to the deductible obligation.

(vii) The loss deferral and other straddle rules would be made applicable when a taxpayer owns stock in a corporation holding positions that offset positions directly held by a taxpayer.

(viii) The accumulated earnings tax would be made applicable to earnings from U.S. sources, even though they have been distributed as a dividend to a foreign corporation in certain cases, and foreign investment companies would be defined to include corporations trading in commodities, resulting in ordinary income to U.S. shareholders in such companies.

(ix) The exemption from the straddle rules for exchange-traded stock options would be terminated. Stock offset by a stock option would also be subject to such rules. An exemption would apply to certain covered call options.

(x) Market-makers and other professional traders in options would be taxed under a mark-to-market system of accounting with respect to all their option positions.

(xi) Gain or loss would be recognized on the exercise of options on regulated futures contracts.

(xii) The tax rules applicable to options would be expressly applicable to cash settlement options.

(c) The administration's budget contains the following proposals for corporate tax reforms:

(i) The deduction for interest paid or accrued by a corporation on an obligation the proceeds of which are used to purchase or carry portfolio stock would be limited to the extent of the deduction for any dividends received on such stock.

(ii) Payments in lieu of extraordinary dividends with respect to stock sold short would not be deductible against ordinary income if the closing of the short sale occurs less than one year after the short sale itself. For ordinary dividends, the short position would be required to be held open for 16 days. Amounts paid to a lender of stock in lieu of such dividends would be treated as part of the short seller's basis in the stock acquired to close the short sale. Payments incurred on short sales not capitalized under these rules would be treated as interest limited or disallowed as investment interest or as interest incurred on obligations to carry tax-exempt obligations.

(iii) The fair market value of extraordinary dividends (to the extent not subject to tax) would reduce the basis in stock held one year or less by a corporation. The shareholder corporation's holding period for dividends of property could not exceed its holding period for its stock in the distributing corporation.

(iv) Any ordinary, non-liquidating distribution of appreciated property would be taxable to the distributing corporation. Certain exceptions of present law (relating to, among other things, carryover basis situations) would remain.

(v) Corporate distributions and liquidating sales of partnership interests would be treated as transfers of the distributing corporation's allocable share of certain of the partnership properties. Gain would be recognized to the corporation to the same extent as if these properties were distributed or sold.

(vi) A collapsible corporation would be required to realize at least two-thirds of the taxable income from the property causing its collapsible status.

(vii) Gain would be recognized, without regard to purpose, upon the transfer of appreciated property to a foreign corporation which is not for use in an active trade or business outside the United States. An automatic toll charge would be imposed on transfers of certain tainted assets with the exception of transfers of stock. Also, tax-free transfers abroad of intangibles would be ended. The overlap of loss recapture provisions would be prevented.

(viii) Certain transfers of the stock of a U.S. parent corporation to its foreign subsidiary by shareholders of the U.S. parent would be treated as if the U.S. parent had exchanged a portion of the subsidiary's stock, subjecting the parent to tax at ordinary income rates on certain deferred earnings of the subsidiary.

(5) A withholding system to collect the tax on gains recognized by foreign persons would be imposed on the disposition of U.S. real property.

Revenue decrease items

The administration's budget also includes the following proposed revenue reduction items:

(1) A series of incentives to invest in areas designated as enterprise zones.

(2) Provision of a nonrefundable income tax credit of 50 percent of certain tuition expenses paid to private elementary and secondary schools subject to a dollar limitation ($100 in 1984, $200 in 1985, and $300 in 1986 and thereafter), and with a phase out of the credit for taxpayers with adjusted gross income (AGI) of $40,000 to $60,000.

(3) Tax exclusion for interest and dividends earned on amounts deposited in qualified education savings accounts, with a phaseout of the exclusion for taxpayers with AGI of $40,000 to $60,000.

(4) Increasing the deductible individual retirement account (IRA) amount for a noncompensated spouse to $2,000 from the present $250.

(5) Treating alimony payments as compensation for purposes of an IRA deduction.

(6) Treating a dependent care organization providing nonresidential care to the general public to enable individuals to be gainfully employed as a tax-exempt charity.

(7) Increasing the tax credit for employment-related dependent care to 40 percent for individuals with AGI of less than $11,000 with the percentage decreasing to zero at AGI of $60,000 or more.

(8) An exemption from income tax for the income of any military or civilian U.S. employee who dies as a result of foreign terroristic or military action after 1979.

(9) A 3-year (through December 31, 1988) extension of the credit for increased research expenses modified to cover only expenditures for the development of new or significantly improved products or processes.

(10) A 2-year extension of the moratorium on allocating U.S. research and experimentation expenditures to foreign sources.

(11) A 1-year extension of the targeted jobs tax credit.

(12) An extension of the special tax deferral rules covering the 1983 payment-in-kind (PIK) program to the 1984 wheat PIK program.

(13) Replacement of the existing three-phase structure of taxation of life-insurance companies by a single-phase tax, more like that imposed on other business corporations, and an adoption of a permanent definition of life insurance contracts.

Other items

The administration's budget also includes the following items that it estimates would have negligible revenue effects:

(1) A replacement of the present Domestic International Sales Corporation (DISC) provisions with an offshore entity that would be exempt from tax on certain export income.

(2) Provision for a new passthrough entity to hold mortgages and issue various classes of securities, referred to as a trust for investment in mortgages (TIM).

(3) Provision that a cafeteria plan may offer employees choices only among cash or those fringe benefits (other than scholarships or fellowships, educational assistance, and vanpooling) that are excludable from gross income under a specific code provision.

Budget receipts

Budget receipts in fiscal year 1985 are projected by the administration to rise by 11.2 percent over the estimated amount for 1984, and to continue to rise thereafter at an average annual rate of 9.2 percent through 1989. As a percentage of GNP, Federal budget receipts would rise to 19.2 percent in 1985 and 19.8 percent by 1989. (See Table 1). Thus, Federal budget receipts over the 1985–1989 period are forecasted to be a somewhat higher proportion of GNP than they were, on average, in the 1970's. Estimates of receipts reflect not only the proposed revenue measures in the budget but also the effects of recent legislation, including the tax cuts enacted in the Economic Recovery Tax Act of 1981, the revenue gains provided by the Tax Equity and Fiscal Responsibility Act of 1982, the increase in Highway Trust Fund revenues arising from the Highway Revenue Act of 1982, the increased tax collections provided by the Social Security Amendments of 1983, the reduced revenues from repealing withholding on interest and dividends as provided by the Interest and Dividend Tax Compliance Act of 1983 (IDTCA), and the tax increases enacted in the Railroad Retirement Revenue Act of 1983. As shown in table 2, the administration estimates that the net effect of major tax laws enacted in 1981–83 is to reduce tax receipts by $73 billion in 1983, $114 billion in 1985, and $173 billion in 1987.

TABLE 1.—COMPARISON OF BUDGET RECEIPTS UNDER PROPOSED ADMINISTRATION POLICY

[Amounts in billions of dollars]

Fiscal year	Administration		CBO	
	Amount	Percent GNP	Amount	Percent GNP
1970–79[1]		18.9		18.9
1980	517.1	20.1	517	20.1
1981	599.3	20.8	599	20.8
1982	617.8	20.2	618	20.2
1983	600.6	18.6	601	18.6
1984[2]	670.1	18.8	665	18.7
1985[2]	745.1	19.2	741	19.0
1986[2]	814.9	19.3	807	19.0
1987[2]	887.8	19.3	878	19.0
1988[2]	978.3	19.7	964	19.3
1989[2]	1,060.3	19.8	1,039	19.3

[1] Average during the 10-year period.
[2] Estimate.

TABLE 2.—NET EFFECT OF MAJOR TAX LEGISLATION ENACTED IN 1981–83 [1]

[By fiscal year, in billions of dollars]

	1983	1984	1985	1986	1987	1983–87
ERTA of 1981	−91.1	−133.6	−165.0	−207.7	−248.5	−845.9
TEFRA of 1982	16.6	35.4	39.7	49.3	60.7	201.8
Highway Revenue Act of 1982	1.5	4.1	4.2	4.4	4.5	18.7
Social Security Amendments of 1983		6.2	8.8	9.3	11.4	35.8
IDTCA of 1983	−.1	−2.6	−2.4	−2.1	−1.7	−8.8
Railroad Retirement Revenue Act of 1983	(2)	.2	.7	1.1	1.1	3.1
Net tax reduction	−73.0	−90.3	−113.8	−145.7	−172.6	−595.4

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects are taken into account for forecasting incomes, however, and in this way affect the receipts estimates in total.
[2] $50 million or less

Appendix A

Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344)—An Overview

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. An Overview

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by the House and Senate (by May 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate committee to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to House procedures under the Congressional Budget Act can be suspended by a majority vote of the House. In addition, the act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be

voted upon by the House, and, if it is approved, the House could proceed to consider the legislation.

2. Impact of Public Law 93-344 on Ways and Means Committee

LEGISLATION WHICH RESULTS IN ADDITIONAL FEDERAL SPENDING

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the committee's jurisdiction. This report is due no later than March 15.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the Senate, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

Limitation on consideration of spending bill.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the House prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the House of Representatives to suspend this rule. The act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The act includes a procedure under which this deadline may be waived by House resolution; the rule may also be suspended by a majority vote of the House.) The Committee on Ways and Means has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15), this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas.

While the budget totals included in the first resolution are in the nature of targets and are not strictly mandatory, they tend to establish fairly firmly the guidelines within which the Congress considers legislation affecting revenues and spending. Thus, if unrealistic objectives are used in setting first resolution totals, com-

mittees, may subsequently find their ability to act on desired legislation impaired.

A second concurrent resolution is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report measures to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Ways and Means, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare or social services).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Ways and Means, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the House.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, or social services creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriation acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the House, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues.

Report on spending legislation.—The Congressional Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above also must, in the case of the Ways and Means Committee, present views and estimates of the committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the House (or Senate) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the House.)

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Ways and Means to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution set a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. As indicated above in describing the impact of the resolution on spending legislation, even the "nonmandatory" first resolution tends to be given great weight in the actual consideration of legislation. Thus, if the first resolution includes unrealistic revenue goals, the committee may face difficulties in the consideration of any revenue legislation.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

EXCERPT FROM PUBLIC LAW 93-344—THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) The appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

* * * * * * *

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

Bills Providing New Spending Authority

SEC. 401. (a) LEGISLATION PROVIDING CONTRACT OR BORROWING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also provides that such new spending authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be requested for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this section, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under the Second Liberty Bond Act) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts; and

(C) to make payments (including loans and grants), the budget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

Appendix B

Committee on Ways and Means March 15, 1982 and 1983, Reports to the Budget Committee

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 15, 1983.

Hon. JAMES R. JONES,
Chairman,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(c) of the Congressional Budget Act of 1974 on those aspects of the Federal budget for fiscal year 1984 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concerns about national economic conditions in fiscal years 1984 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress to address them.

I. *Revenues.*—The Congressional Budget Office estimates fiscal year 1984 revenues at $654 billion. With the passage of H.R. 1900, revenues in fiscal year 1984 will increase by $5.2 billion. The Committee anticipates that it will be possible to enact legislation raising an additional $8.0 billion in revenues. Increases in revenues beyond this will be more difficult to achieve. As in prior years, this amount assumes $100 million of miscellaneous revenue and tariff measures will be accommodated.

II. *Outlays.*—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different functional categories. With the anticipated passage of H.R. 1900, the Committee has already taken significant steps to reduce expenditures. Outlays will be reduced by $3.2, $3.7 and $6.2 billion for fiscal years 1984 to 1986 respectively. H.R. 1900 extends the Federal Supplemental Compensation program (FSC) until September 30, 1983. The Committee anticipates an extension of the FSC program that will affect the fiscal 1984 budget. Because of changing economic conditions, however, it is unable to provide a cost estimate of conditions. The Committee also anticipates amendments to the other benefit programs under its jurisdiction that will increase function 500 and 600 expenditures by a total of $0.5 billion in fiscal year 1984.

III. *Public Debt Limit.*—The Congressional Budget Office estimates that the fiscal year 1984 budget deficit will be $197 billion under current law. In the absence of any legislative action to reduce spending or increase revenues, the total deficit (including off-budget entities) is estimated by the CBO to be $218 billion which will require that the debt subject to statutory limit be increased to $1.562 trillion for the period ending September 30, 1984..

IV. *Tax Expenditures.*—The report on tax expenditures of the staff of the Joint Committee on Taxation which serves as the Joint Committee's report to the Budget Committee is appended to this letter and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(c) of the Budget Act.

V. *Additional materials.*—To assist the Budget Committee in carrying out its responsibilities and help it in making assessments concerning the specific recommendations within the jurisdiction of the Committee on Ways and Means, I am enclosing a copy of Ways and Means Committee Print 98–2 entitled, "Background Material and Data on Major Programs within the Jurisdiction of the Committee on Ways and Means." In addition, I am also enclosing a copy of background document, "Description of the Administration's Fiscal Year 1984 Budget Recommendations Under the Jurisdiction of the Committee on Ways and Means." I hope you find this information useful. As always, the Members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI,
Chairman.

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., March 9, 1982.

Hon. JAMES R. JONES,
Chairman, Committee on the Budget,
Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(c) of the Congressional Budget Act of 1974 on those aspects of the Federal budget for fiscal year 1983 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concerns about national economic conditions in fiscal years 1983 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress to address them. This report does not focus on any specific set of spending proposals. Rather, it seeks to provide the Committee on the Budget an overview of the present situation with respect to current law projections for those programs within the jurisdiction of the Committee on Ways and Means.

The Committee is committed to making every effort, on a bipartisan basis, to reduce the deficit by at least as much as that proposed in the Administration's budget on matters within the jurisdiction of the Committee on Ways and Means, but reserves the right to determine what the appropriate mix of revenue increases and outlay reductions should be to achieve at least that level of deficit reduction. The Committee intends to review all the alternatives available to it during the next few weeks and will communicate to the Committee on the Budget our more detailed recommendations as soon as they become available.

I. *Economic assumptions.*—In preparing this report to the Committee on the Budget, the Committee notes that differences remain in the economic assumptions used by the Administration in proposing its budget and the assumptions used by the Congressional Budget Office in reestimating that budget. While we are pleased to note that the difference in those assumptions is far less significant than was the case with the FY 1982 Budget, the Committee has chosen to reflect in this letter the estimates of revenues and outlays of our programs as calculated both by the Office of Management and Budget and the Congressional Budget Office.

TABLE 1.—ADMINISTRATION AND CBO BASELINE FISCAL YEAR 1983 CURRENT SERVICES BUDGET AUTHORITY AND OUTLAY ESTIMATES BY FUNCTION

[In billions of dollars]

Functional category	Congressional Budget Office		Administration	
	Budget authority	Outlays	Budget authority	Outlays
500 Education, training, employment and social services	3.8	3.8	3.8	3.8
550 Health	61.9	58.2	62.3	57.8
600 Income security	207.1	217.4	210.9	216.2
850 General purpose fiscal assistance	.4	.4	.4	.4
900 Interest	149.3	149.3	137.5	137.5

II. *Outlays by Function.*—As indicated in Table 1, the Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different functional categories. Among the programs within the jurisdiction of the Committee are the various major entitlement programs authorized by the Social Security Act: the Old-Age, Survivors, and Disability Insurance program, the medicare program, the unemployment compensation program, Aid to Families with Dependent Children (including IV-B Child Welfare Services and IV-E Foster Care and Adoption Assistance), the Supplemental Security Income program and the Title XX social services program. In addition, the Committee has responsibility for Trade Adjustment Assistance and the Low-Income Energy Assistance program.

Function 500: Education, training, employment, and social services.—This function includes expenditures out of the Federal unemployment trust fund for administration of State Employment Services and unemployment compensation programs and out of employment and training assistance. In addition, Title XX social services, IV-B Child Welfare Services, and the new IV-E Foster Care and Adoption Assistance program are included in this function.

The Committee recommends $100,000,000 for training and job search and relocation allowances under the trade adjustment assistance program for workers. The Administration has not yet decided on the level of allocation for those functions under a proposed $200,000,000 special targeted program.

Function 550: Health.—In this function, the Committee has jurisdiction over the medicare program including the hospital insurance program (part A) and the supplementary medical insurance program (part B).

Function 600: Income Security.—In this function, the Committee's jurisdiction includes the Old-Age, Survivors, and Disability Insurance program (OASDI), the trade adjustment assistance program for workers, the Federal-State unemployment compensation system, the Aid to Families with Dependent Children program, the Supplemental Security Income program, the Low-Income Energy Assistance authorization, the Pension Benefit Guarantee Corpora-

tion Fund and the earned income tax credit available to certain low-income families.

The President's fiscal year 1983 Budget recommends limiting certain administrative expenses of the Social Security Administration through language included in the fiscal year 1983 request for appropriations. This matter is more properly addressed through legislation which would be within the jurisdiction of the Committee on Ways and Means. The Committee expects to be acting on legislation of this general nature later this year. The Committee, therefore, recommends that the recommendations of the Administration not be included in appropriation legislation enacted this year.

The President's Budget also contains recommendations to eliminate the existing railroad retirement program and to cover railroad workers under the social security program beginning October 1, 1982. The Committee has been informed that the Committee on Energy and Commerce, which has jurisdiction over the nonrevenue aspects of the railroad retirement program, does not anticipate taking any action on these Administration recommendations. It is, therefore, not anticipated that the Committee on Ways and Means will act on the aspects of these recommendations that fall within its jurisdiction.

The Committee will be developing legislation this year to limit cash benefit entitlements under the worker trade adjustment assistance program to applicants for training, as opposed to the Administration proposal to eliminate such benefits as of July 1, 1982, except for workers already enrolled in training.

Function 850: General purpose fiscal assistance.—In this function, the Committee has jurisdiction over the U.S. Customs Service's collection of customs revenues for Puerto Rico. The Committee recommendation of $362 million is the same as requested by the Administration.

Function 900: Interest.—The difference between the current service estimates of the Congressional Budget Office and the Administration is due primarily to different projections for the interest rate. The Administration projects an average 10.5 percent interest rate for 91 day Treasury bills, whereas CBO projects a 13.2 percent rate for fiscal year 1983. To a much smaller extent, the difference is also due to different projections about the unified budget deficit under current law.

III. *Other Matters.*—The Committee is responsible for the authorization of appropriations for the U.S. Customs Service, the U.S. International Trade Commission (USITC), and the Office of the U.S. Trade Representative (USTR). For the Customs Service, the Committee recommends continuation of the level of services currently funded at $493,743,000 in fiscal year 1982, to be adjusted upward by an amount yet to be determined for inflation, pay increases, and possible transfer of BATF functions. The Administration request of $530,524,000 represents a $12,683,000 reduction in current operations. The Committee recommends $19,737,000 and $10,100,000 for the USITC and USTR, respectively, the same amounts requested by the Administration. The Committee also has jurisdiction over the trade adjustment assistance program for firms and recommends its continuation in fiscal year 1983 at the current fiscal year 1982

funding level of $27,578,000 rather than elimination of the program as proposed in the President's fiscal year 1983 Budget.

Also in the trade sector, the Committee has reviewed and approved the funding levels requested by the Administration for (a) disposition of unclaimed and seized goods by the Customs Service ($100,025,000), (b) the Department of Commerce International Trade Administration ($137,371,000), (c) foreign trade statistics programs of the Department of Commerce ($13,263,000), and (d) the U.S. contributions to the GATT ($1,842,000).

TABLE 2.—FISCAL YEAR 1983 CURRENT SERVICES REVENUE ESTIMATES

[In billions]

Administration's estimate	$653
Congressional Budget Office estimate	652

IV. *Revenues.*—The President's Budget for fiscal year 1983 projects revenues of $653 billion on a current services basis. This estimate reflects the revenue effect of the Economic Recovery Tax Act of 1981 and the increases in the social security tax rate and taxable earnings base scheduled under current law. The Congressional Budget Office estimates fiscal year 1983 revenues at $652 billion. The $1 billion difference between the Administration estimate and the Congressional Budget Office estimate reflects different economic assumptions and technical estimating differences.

TABLE 3.—FISCAL YEAR 1983 DEBT LIMIT ESTIMATES

[In billions]

Administration's deficit estimates:	
Unified budget deficit	$146
Off-budget entities	16
Total deficit	162
Debt subject to limit	1,309
CBO deficit estimates:	
Unified budget	157
Off-budget entities	16
Total deficit	173
Debt subject to limit	1,333

V. *Public Debt Limit.*—The President's Budget projects a fiscal year 1983 deficit of $146 billion on a current services basis. The Congressional Budget Office estimates that the fiscal year 1983 budget deficit will be $157 billion assuming the same current services policy.

In the absence of any legislative action to reduce spending or increase revenues, the total deficit (including off-budget entities) is estimated by the Administration to be $162 billion which will require that the debt subject to statutory limit be increased to $1.309 trillion for the period ending September 30, 1983. The Congressional Budget Office estimates that in the absence of further legislative action, the total fiscal year 1983 deficit (including off-budget entities) will be $173 billion requiring that the debt subject to statutory limit be increased to $1.333 trillion for the period ending September 30, 1983.

The Committee is very alarmed by the level of deficit projected on a current services basis under either the Administration's estimate or the Congressional Budget Office estimate. It is our earnest hope that legislation can be developed during the upcoming months that will address these deficit estimates in a realistic manner. The Committee on Ways and Means has every intention of taking a primary role in that effort.

It should also be noted that, as a result of legislation enacted last year and the current economic situation, projections of levels of federal borrowing for fiscal year 1982 are significantly understated. As a result, it is estimated that the current debt limit, of $1,079.8 billion, will not be adequate to meet Treasury borrowing requirements through September 30, 1982. It is anticipated that the current debt limit will be reached before the end of May. As a result, the Administration must submit a request to the Committee on Ways and Means to raise the debt limit, most likely the latter part of April.

VI. *Tax Expenditures.*—The report on tax expenditures of the staff of the Joint Committee on Taxation which serves as the Joint Committee's report to the Budget Committee is appended to this letter and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(6) of the Budget Act.

VII. *Five-year budgetary outlook.*—The magnitude and timing of the changes in outlays or expenditures which may result from changes in the law to be recommended by the Committee during this session of the Congress will depend heavily on the exact nature of each specific legislative change. The magnitude of these changes can be determined only after the entire process of substantive consideration by the Committee and the Congress is completed.

The Committee recognizes that the Congressional Budget Act requires the Budget Committees to undertake an analysis of the five-year budgetary outlook and include such projections in their reports on the budget resolution. This is a useful and appropriate element in congressional consideration of broad budgetary prespectives. However, for the reasons cited above, the Committee believes that attempts by substantive committees to provide detailed projections of the likely impact of legislative changes on future fiscal years would be a highly speculative exercise if done prior to actual legislative consideration. The Committee does recognize the importance of future year budgetary impact projections and believes that the Budget Act and the House Rules properly impose on substantive committees the obligation to make such projections when they have completed legislative consideration and are reporting a measure to the House of Representatives. For the information of the

Budget Committee, however, the following summary of projected program outlays under current law for the next three fiscal years is provided. In order to be as informative as possible, the Congressional Budget Office baseline projections are presented by individual program and not merely by budget function.

TABLE 4.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In billions of dollars]

	1982	1983	1984	1985
Social security	158.0	173.6	188.1	203.0
Medicare	48.9	58.2	66.7	77.9
Trade adjustment assistance	0.2	0.1	0.1	0.1
Unemployment compensation	24.3	23.3	21.7	21.9
AFDC and child support	8.1	8.3	8.5	9.0
Earned income tax credit	1.3	1.2	1.1	1.1
SSI	8.0	9.1	8.3	9.5
Low income energy assistance	1.8	1.9	2.0	2.3
Social services block grant (title XX)	2.4	2.5	2.5	2.6
Child welfare, foster care and adoption assistance	0.5	0.5	0.6	0.6
Total	253.5	278.6	299.6	328.1

VIII. *Additional materials.*—To assist the Budget Committee in carrying out its responsibilities and to help it in making assessments concerning the specific recommended reductions within the jurisdiction of the Committee on Ways amd Means, I am enclosing a copy of Ways and Means Committee Print 97-29 entitled, "Background Material and Data on Major Programs within the Jurisdiction of the Committee on Ways and Means." In addition, I am also enclosing a copy of background document, "Description of the Administration's Legislative Recommendations Under the Jurisdiction of the Committee on Ways and Means." I hope you find this information useful. As always, the Members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

○

E R R A T A

WMCP: 98-24, should be corrected as follows:

Page 4, table 2
SSI figure for 1987 should be -15
Total figure for 1989 should be -8,548.

Page 26, table 1,
Limit assistance to minor mothers not
living with their parents..... 0 0 11,000 0

Page 36, last line of paragraph under "Description of proposal":
"$267 million" should be "$271 million"